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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4731
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0961
RUEHBY/AMEMBASSY CANBERRA 9733
RUEHKA/AMEMBASSY DHAKA 4210
RUEHLO/AMEMBASSY LONDON 1666
RUEHNE/AMEMBASSY NEW DELHI 3393
RUEHUL/AMEMBASSY SEOUL 6830
RUEHTC/AMEMBASSY THE HAGUE 0530
RUEHKO/AMEMBASSY TOKYO 4444
RUEHCI/AMCONSUL CALCUTTA 0798
RUEHCN/AMCONSUL CHENGDU 0800
RUDKIA/AMCONSUL CHIANG MAI 0482
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 2732
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0375
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000876

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SUBJECT: BURMA MISSES A COPPER PLATED OPPORTUNITY

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Classified By: Acting P/E Chief:TLManlowe for Reasons 1.4 (b,d)

11. (C) Summary: Economic mismanagement keeps Burma from cashing in on the global rise in copper prices. The experiences of Ivanhoe, the Canadian firm in a joint venture with the GOB to extract and export copper, illustrate the difficulties most firms face doing business in Burma. End summary.

12. (C) Myanmar Ivanhoe Copper Company, Ltd. (MICCL), is a joint venture with Ivanhoe Mines of Canada and Mining Enterprise-1 of Burma's Ministry of Mines that operates a copper mine in Sagaing Division, central Burma. Despite the high world price for copper, the over 99% purity of the product coming from the mine, and the desire of Ivanhoe to boost production from 39,000 to 200,000 tons annually, GOB inefficiencies resulted in reduced production in 2005-06 and a short closure of the mine. Ivanhoe management sent Senior Vice President Mark Whitehead, an American, to sort the problems out in August 2005 to no avail. Conversations with Whitehead, Ivanhoe's Commercial Manager Gerry Nugewela, and the mine's heavy equipment supplier over a six month period revealed the difficult partnership of a global company and the Burmese regime.

Mismanagement Leads to Missed Opportunities

13. (C) Nugewela told us that Ivanhoe wanted to take advantage of rising copper prices and increase production from the current 39,000 tons to 200,000 tons annually. The mine holds adequate supplies of ore, and Ivanhoe management sought to scale up operations by buying more equipment and training more workers almost a year ago. However, he reported that the GOB partners never received approval from senior officials so no expansion occurred. International copper prices rose 75% from January to May 2006. With production

costing 50 cents a pound, according to Nugewela, and selling at \$3.76 per pound, MICCL potentially lost over \$1 billion it could have made on the additional tonnage. Other problems Ivanhoe encountered include inefficient import processes, power shortages and banking difficulties.

14. (C) Import Confusion: The Caterpillar equipment dealer who supplies the mining industry in Burma told us it took over four months for MICCL to receive the requested import permit for over \$2 million of equipment and supplies needed to maintain and replace aging heavy equipment. Because of the delays and the high global demand, Caterpillar sent the equipment intended for Burma to other customers. As a result, the dealer had to wait months to get the order filled once he received the import permit. VP Whitehead also described other problems causing MICCL operations to halt earlier this year. In one case, the freight forwarder didn't deliver the imported chemicals necessary to process the ore. After a few weeks, port personnel found the lost chemicals sitting on the wharf.

15. (C) According to Whitehead, all decisions must go from the Mining Enterprise-1 to Industry Enterprise-1, to the Ministry of Mines, to the Myanmar Investment Council, and finally to the Trade Policy Council (TC). The Trade Council, a cabinet-level committee chaired by Vice Senior General Maung Aye approves each import and export license. The TC meets at most once a week, and met less frequently from November 2005 to March 2006 as a result of the move of the capital. This caused a huge backlog of delays that even the Minister of Mines couldn't break through, according to Ivanhoe sources. Local press reports earlier in the year aired complaints by Ministry of Mines personnel that Trade Council delays caused production declines at other mines.

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16. (C) Power: The lack of power also affected production. The copper plating process used by MICCL requires a large amount of electricity. Now the mine uses 16 MW of power, but needs more to be more efficient. The mines closed down in March 2006 partially because most imported diesel was used to transport people and goods from Rangoon to the new capital, leaving little for other official uses. Although MICCL was on the list to receive some of the precious diesel, the GOB did not allocate it, Whitehead said.

17. (C) Banking Woes: Ivanhoe also had to find a bank interested in its business. HSBC was the trustee of MICCL's initial loan, and once it was paid off earlier this year, HSBC decided to stop handling MICCL's business. MICCL could not pay its bills or employees for a short period until a new bank was found, which also factored in the closure of the mine. Whitehead said MICCL conducts its business in "every currency except dollars."

18. (C) Comment: Ivanhoe's difficulties illustrate why Burma receives almost no new investment despite its rich potential. Changing import procedures, erratic power, and reluctant banks affect all businesses - foreign and domestic, minerals to retail. Thus Burma not only misses out on opportunities to grow, but in actuality, steadily declines economically. End comment.
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